

ERS Research on Multilateral Trade Reform

ERS research on multilateral trade reform focuses on developing conceptual and empirical economic frameworks to analyze new issues arising out of implementation of the Uruguay Round Agreement on Agriculture (URA), Sanitary and Phytosanitary (SPS) and Technical Barrier (TB) agreements and concerns about state trading enterprises and regional trade agreements. The research program will provide timely support to U.S. policy makers dealing with ongoing trade disputes as well as support preparations for the next round of WTO negotiations on agriculture scheduled to begin in 1999.

During 1998, results of completed analyses will be disseminated to a wide audience via the ERS internet site and a string of successive reports. First, a series of briefing papers on the major issues will be published on the WTO internet site. They will help frame the issues likely to come up during the course of negotiations by attempting to cut through the maze of political, institutional and economic complexity associated with each issue. This will be followed up by a report in the *International Agriculture and Trade Report* series containing a number of special articles expanding on the same issues. In addition, three major analytical reports will be completed in 1999.

Three research projects cover **URA provisions**. A key goal of this research is to provide U.S. negotiators with information that will help them to improve and refine the provisions found in the Agreement on Agriculture and choose a course towards greater market orientation.

Market access. In the URA improved access for imports results from tariffication of quantitative barriers to trade and formula-based reduction in those tariffs. Countries also promised minimum market access via tariff rate quotas (TRQs) whereby approximately 5 percent of domestic consumption would be allowed to enter at reduced tariff rates. In order to analyze alternative scenarios to improve market access, ERS is developing methodological approaches and databases necessary to do multilateral scenario analysis. Development of data on trade and domestic policies as well as domestic price and quantity data will be coordinated with international institutions and academics. A systematic outside review of modeling frameworks will take place in the first half of 1998 and provide guidance in refinements necessary so that our models can analyze scenarios of tariff reduction and TRQ expansion.

Research on TRQ allocation mechanisms provides economic analysis of the distribution of quota rents and quantifies trade effects of different systems using case studies. The effect on market access of multiple TRQs such as European Union TRQs under the URA and the Europe Agreements with Central and Eastern European countries will be examined.

Domestic support. Analysis of the impact of domestic support has two dimensions. As part of a multi country research program coordinated by OECD, ERS participates in the Policy Evaluation Matrix (PEM) project. The PEM model estimates a matrix of effects of different agricultural policies on consumers, farmers, trade flows and input suppliers. Results from the pilot project in 1997 clearly illustrated that farmers receive only a small percentage of the benefits of price supports, and decoupled policies such as direct payments are a more efficient mechanism to support farmers. Ongoing work is to increase the commodity and policy instrument coverage and refine estimates of the impacts on farm employment. PEM models from several countries will be linked to estimate the impact of one country's policies on other countries.

Other ERS work on domestic support seeks to determine whether policies classified by the URA as nontrade distorting and placed in the “green box” actually meet this criteria. Special attention is being given to programs dealing with crop and revenue insurance, structural adjustment and environmental payments, and investment and credit assistance programs.

Export subsidies. The URA imposed both limits on exports subsidies in both value and quantity terms. Research focuses on economic analysis of schemes countries have developed to circumvent these restrictions including inward processing and price pooling.

Another major thrust of ongoing research builds on previous research on **technical barriers to trade (TBTs)**. A report jointly authored by ERS and academic economists presents a conceptual approach to analysis of TBTs and looks at their prevalence using data from an inventory of foreign TBTs. The report contains a comprehensive, multi-dimensional taxonomy of TBTs. An economic analysis derives the tariff equivalent of TBTs under different assumptions about the impact of the policy on the importing country’s market.

Ongoing work extends the existing conceptual frameworks in order to assess the trade and welfare effects of TBTs. ERS will support USDA policy makers and agencies with SPS oversight responsibility through policy briefings, organization of and participation in workshops geared to the needs of policy makers and operational agencies, and a specific project which will create a simple conceptual framework that policy makers can use to rank TBTs in terms of the degree to which they distort trade or welfare.

Now that tariffs and export subsidies have been disciplined under the URA, **state trading enterprises (STE’s)** have attracted attention because of concern that they will be used to hinder market access or provide hidden export subsidies. A report will be published that addresses the questions, What is state trading? Why do countries pursue state trading? How important is state trading to agriculture? How might STE’s affect markets? The report examines measurement approaches and data and conceptual challenges to measurement, and then offers a taxonomy as an alternative to actual measurement. The report includes both economic analysis and information on the importance of STE’s in world markets.

The dramatic proliferation and expansion of **regional trade agreements** that is occurring raises several issues for policy makers. A forthcoming ERS report asks the questions: Will the regional agreements substitute for, reinforce, or accelerate global trade liberalization in agriculture? What are the costs and benefits for the U.S. from pursuing regionalism, at a time when multilateral talks on agriculture under the WTO are soon to reopen? The publication defines the concepts and issues of regionalism, generally, and specifically with respect to U.S. agriculture. U.S. agricultural trade is characterized by a wide range of commodities traded with a broad network of countries and regions such that no one region dominates. Quantitative estimates of the impact on the U.S. of different regional agreements show that the U.S. generally gains when it participates in the agreement, but can lose when it is not a member. The exception is open regionalism such as in APEC, when the US loses because of benefits to nonparticipants who do not provide reciprocal market access.